

## Message Text

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PAGE 01 STATE 241599

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ORIGIN STR-02

INFO OCT-01 EUR-08 IO-04 ISO-00 FEA-01 AGR-05 CEA-01

CIAE-00 COME-00 DODE-00 EB-04 FRB-01 H-01 INR-05

INT-05 L-01 LAB-01 NSAE-00 NSC-05 PA-01 RSC-01 AID-05

CIEP-01 SS-15 TAR-01 TRSE-00 USIA-06 PRS-01 SP-02

OMB-01 SWF-01 /080 R

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STATE:EUR/NE:PCANNEY

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STATE:EUR/RPE:JMCCARTHY

AGRICULTURE:KREYNOLDS

LABOR:FLAVALLEE

TREASURY:SLYON

COMMERCE:BFRANCIS

----- 092258

R 020301Z NOV 74

FM SECSTATE WASHDC

TO USMISSION EC BRUSSELS

AMEMBASSY HELSINKI

INFO USMISSION GENEVA

USMISSION OECD PARIS

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY THE HAGUE

AMEMBASSY LUXEMBOURG

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY VIENNA

AMEMBASSY STOCKHOLM

AMEMBASSY LISBON

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PAGE 02 STATE 241599

AMEMBASSY BERN

AMEMBASSY REYKJAVIK  
AMEMBASSY OSLO  
AMEMBASSY PRAGUE  
AMEMBASSY BUDAPEST  
AMEMBASSY SOFIA  
AMEMBASSY MOSCOW  
AMEMBASSY BERLIN  
AMEMBASSY BUCHAREST  
AMEMBASSY WARSAW

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E.O. 11652: N/A  
TAGS: ETRD, EEC, C2, F1  
SUBJECT: FINNISH FREE TRADE  
AGREEMENTS WITH HUNGARY,  
BULGARIA, AND CZECHOSLOVAKIA

REF: (A) EC BRUSSELS 7837 (B) EC BRUSSELS 8144 (BOTH  
NOTAL)

1. WE SHARE THE EC COMMISSION'S VIEW THAT WE SHOULD  
APPROACH FINNISH-EASTERN EUROPEAN FREE TRADE AGREEMENTS  
CAUTIOUSLY AND IN A MANNER WHICH ENABLES US TO TAKE INTO  
ACCOUNT FINLAND'S UNIQUE STATUS. OUR OBJECTIVES SEEM TO  
PARALLEL CLOSELY THOSE OF THE EC COMMISSION, AS OUTLINED  
BY DE KERGORLAY IN REF B, PARAS 2 AND 3. WE WISH TO  
AVOID CAUSING DIFFICULTIES FOR THE FINNS, WHILE AT THE  
SAME TIME, WE WISH TO AVOID SETTING A PRECEDENT FOR  
ADDITIONAL AGREEMENTS OF THIS TYPE BETWEEN WESTERN AND  
EASTERN EUROPEAN COUNTRIES WHICH COULD UNDERMINE THE GATT  
AND ESTABLISH SPECIAL TRADING RELATIONSHIPS BETWEEN THESE  
COUNTRIES WHICH, INTER ALIA, INHERENTLY DISCRIMINATE  
AGAINST THE U.S.

2. IN ACHIEVING THESE OBJECTIVES WE BELIEVE THAT INITIAL  
GATT REVIEW SHOULD BE STRUCTURED SO AS TO ENHANCE ITS  
DETERRENT EFFECT ON FURTHER SPREAD OF SUCH EAST-WEST  
AGREEMENTS. IT HAS ALREADY BEEN REPORTED THAT (A) FINLAND  
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PAGE 03 STATE 241599

IS ALSO CONSIDERING SIMILAR FREE TRADE AGREEMENTS WITH  
POLAND AND THE GDR, (B) HUNGARY AND PERHAPS OTHER EASTERN  
EUROPEAN COUNTRIES HAVE HINTED AT CONCLUDING SUCH  
AGREEMENTS WITH AUSTRIA, AND (C) EC COMMISSION SUSPECTS  
THAT IF IT APPEARS TO ACCEPT FINNISH-EE AGREEMENTS AS  
CONSISTENT WITH GATT, CZECHOSLOVAKS WOULD SOON SUGGEST  
CONCLUDING FREE TRADE AGREEMENT WITH THE COMMUNITY.  
THEREFORE, WE BELIEVE THAT GATT WORKING PARTY (OR PARTIES)

TO CONSIDER FINNISH AGREEMENTS WITH CZECHOSLOVAKIA, HUNGARY AND BULGARIA SHOULD CONVENE AS SOON AS POSSIBLE AFTER GATT NOTIFICATION IS MADE. AS WE SEE IT, OBJECTIVE OF FIRST WORKING PARTY MEETING SHOULD BE TO PROMPTLY AND CLEARLY SHOW THAT AGREEMENTS ARE NOT CONSISTENT WITH SPIRIT OF GATT ARTICLE XXIV, THAT THEY RESULT FROM UNIQUE CIRCUMSTANCES, AND THAT THEY ARE DEFINITELY NOT A PRECEDENT FOR OTHER FREE TRADE AGREEMENTS. AT A MINIMUM, WE WISH TO RAISE SUFFICIENT QUESTIONS AND DOUBTS IN FIRST WORKING PARTY MEETING ABOUT LEGITIMACY OF SUCH "FREE TRADE" AGREEMENTS SO THAT OTHER COUNTRIES WILL BE DETERRED FROM UNDERTAKING SIMILAR INITIATIVES. WHILE WE ENVISAGE NEED FOR SEVERAL MEETINGS OF WPS WE PREFER TO DEVELOP SCENARIO AND TIME FRAME OF EXAMINATION AFTER INITIAL GATT REVIEW. WE ARE CONCERNED THAT SHOULD AN ATTENUATED SCENARIO, SUCH AS THAT OUTLINED BY DE KERGOLAY, BE DECIDED ON NOW, IT COULD UNDERCUT POSSIBLE DETERRENT EFFECT AND INDEED, EVEN ENCOURAGE OTHERS TO COME FORWARD WITH SIMILAR AGREEMENTS OF THEIR OWN IN THE INTERIM.

3. IN GATT REVIEW, WE PRESUME PARTIES TO AGREEMENTS WILL WANT SEPARATE WORKING PARTIES WITH SAME COMPOSITION TO EXAMINE AGREEMENTS AD SERIATUM AS WAS DONE WITH EC-EFTA AGREEMENTS. AS INDICATED ABOVE, WORKING PARTIES SHOULD BE SET UP AS SOON AS POSSIBLE AFTER AGREEMENTS HAVE BEEN NOTIFIED TO GATT. IF RATIONALE COULD BE FOUND, WE WOULD PREFER CONSIDERATION OF CZECHOSLOVAK AGREEMENT FIRST SINCE IT MOST CLEARLY VULNERABLE ON QUESTION OF COMPATIBILITY WITH INTENT OF GATT ARTICLE XXIV. OTHERWISE AGREEMENTS COULD BE CONSIDERED IN ORDER OF THEIR SIGNATURE WHICH WOULD PUT BULGARIA FIRST. WE RECOGNIZE THAT USUAL GATT PRACTICE IS TO INITIATE WRITTEN LIMITED OFFICIAL USE

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PAGE 04 STATE 241599

QUESTION-AND-ANSWER PROCEDURE WHEN WORKING PARTIES ARE ESTABLISHED AND TO HOLD INITIAL MEETING WHEN REPLYS ARE AVAILABLE. IN THIS CASE, HOWEVER, WE PROPOSE PROMPT INITIAL MEETING WITH WRITTEN Q AND A'S CONSIDERED IN SUBSEQUENT MEETINGS.

4. IN WORKING PARTY EXAMINATION WE WILL WANT DETAILED DISCUSSION AND QUESTIONING OF CONSISTENCY OF THESE AGREEMENTS WITH PRINCIPLES AND PROVISIONS OF GATT. MAIN FOCUS WILL BE ON (A) HOW ARTICLE XXIV OBJECTIVES CAN BE ACHIEVED IN AGREEMENTS BETWEEN PARTIES ONE OF WHICH HAS CENTRALLY PLANNED ECONOMY, AND (B) ON RELEVANCE OF SPECIFIC ARTICLE XXIV PROVISIONS IN SUCH SITUATIONS.

5. EMBASSY HELSINKI AND, AS APPROPRIATE, MISSION EC

BRUSSELS REQUESTED TO MAKE THE FOLLOWING POINTS TO THE  
FINNS:

(A) WE INTEND TO EXAMINE THE AGREEMENTS CLOSELY AND  
SUBJECT THEM TO CLOSE SCRUTINY AS REGARDS THEIR  
CONFORMITY TO GATT. WE WILL SUPPORT THE PROMPT CONVENING  
OF A GATT WORKING PARTY, OR PARTIES, TO REVIEW THE  
AGREEMENTS AFTER THEIR NOTIFICATION TO GATT.

(B) ALTHOUGH WE APPRECIATE FINLAND'S UNIQUE  
CIRCUMSTANCES, WE HAVE SERIOUS DOUBTS THAT FREE TRADE  
AGREEMENTS WITH CENTRALLY PLANNED ECONOMIES CAN BE  
MEANINGFUL AS LONG AS THE PRINCIPAL OBSTACLES TO TRADE  
WITH SUCH COUNTRIES ARE INHERENT TO THE STATE TRADING  
SYSTEM ITSELF, AND ARE TOTALLY UNRELATED TO THE NORMAL  
TARIFFS AND VISIBLE TRADE BARRIERS OF FREE MARKET  
COUNTRIES.

6. IN DISCUSSING SUBSTANCE OF THIS MESSAGE WITH  
COMMISSION, MISSION EC BRUSSELS SHOULD STRESS THAT WE  
WISH TO REMAIN IN CLOSE TOUCH WITH THE EC ON QUESTION OF  
FINNISH-EASTERN AGREEMENTS AND BELIEVE IT IS ESSENTIAL  
THAT WE WORK OUT A COORDINATED VIEW FOR PRESENTATIONS  
IN GATT WORKING PARTIES AND IN OUR DISCUSSIONS WITH FINNS  
AND EASTERN EUROPEAN COUNTRIES.

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PAGE 05 STATE 241599

7. EMBASSIES IN EC CAPITALS SHOULD NOT INITIATE ANY  
INQUIRIES AT THIS TIME BUT SHOULD REPORT ON HOST GOVERN-  
MENT ATTITUDES, PARTICULARLY ANY DIVERGENCE FROM APPROACH  
BEING TAKEN BY EC COMMISSION.

8. ALL ADDRESSEES REQUESTED TO CONTINUE REPORTING  
INFORMATION WHICH MAY BE RECEIVED ON ANY ADDITIONAL  
PROSPECTIVE EASTERN EUROPEAN "FREE TRADE" OR PREFERENTIAL  
TRADE AGREEMENTS WITH WESTERN COUNTRIES. INGERSOLL

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## Message Attributes

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